State of Alaska
Department of Natural Resources
Alaska North Slope Royalty Gas Sale
Offer

Name of Offeror ANADARKO PETROLEUM CORPORATION (APC)
AEC OIL & GAS (USA) INC. *and* AEC MARKETING (USA) INC. (AEC)

Address **APC:** 17001 Northchase Dr. Houston, TX 77060;
AEC: 3900, 421 – 7th Avenue S.W. Calgary, AB, Canada T2P 4K9

Contact Person **APC**: Dave Anderson; Phone No **APC**: (832) 636-7139;
AEC: Alan Sharp **AEC**:(403) 261-2560

To the Commissioner of Natural Resources:

In response to the State's Solicitation for Offers issued December 26, 2001, the undersigned offeror, having been qualified by the Commissioner, makes the attached offer for Alaska North Slope Royalty Gas.

Additional information that the Commissioner may read at the public hearing to be held February 1, 2002 is below:

Anadarko and AEC wish to thank Governor Knowles, Commissioner Pourchot and the staff at the Department of Natural Resources for embarking upon this Royalty Gas Sales process. We believe that this natural gas royalty sale is both timely and beneficial to the State.

To maximize the State's value for future natural gas royalty production it is crucial that this sale take place now, before a pipeline open season for transportation capacity is held. Anadarko and AEC believe that this RIK sales process will guarantee that the State realizes substantially more benefits from its royalty gas, both in cash value and in the value from increased exploration and new production, than if it had left the gas with the lessees to market in-value, or elected to defer this sale to some future point in time.

Once again we thank the Knowles Administration for having the foresight to initiate this royalty gas sales process. It will ensure the maximum value to Alaskans from the State's endowment of natural gas resources.

Offeror: Anadarko Petroleum Corporation Date: January 30, 2002
By: [signature]
Title: Sr. Vice President
Marketing & Minerals

Offeror:________________ Date:________________
By:________________
Title:________________

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By:________________
Title:________________

Attach Proposal

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Offeror:________________ Date:________________

By:________________

Title:________________

Offeror: AEC Oil & Gas (USA) Inc. Date: JANUARY 30, 2002

By:

Title: Vice President

GUY C.L. JAMES
VICE-PRESIDENT

Offeror: AEC MARKETING (USA) INC. Date: JANUARY 30, 2002

By:

Title:

R. WILLIAM OLIVER
PRESIDENT

Attach Proposal

* QUALIFICATION TO OFFER SUBMITTED ON JANUARY 18, 2002 (COPY ATTACHED)

OFFER FOR ROYALTY GAS SUMMARY
January 31, 2002

1. Cash Payment: $350,000.

2. Option Payment: $2 million up-front and an additional $2 million at each 5 year term renewal.

3. Price Premium: $0.02 per MMBtu first 5 years, with $0.02 per MMBtu increases at each 5-year term renewal.

4. Reservation Fee: Equal to one percent (1.0%) of the sum of the Base Price and the then applicable Price Premium, subject to a cap equal to the then effective Price Premium.

5. Exploration Work Commitment: A minimum $50 million expenditure for exploration and development in the gas-prone Brooks Range foothills ("Foothills") for 2002-2007.

6. Preference for Local Hire: The Purchasers agree to a local hire preference.

7. Training Obligation: In the even of a commercial Foothills gas discovery, the Purchasers agree to an annual training obligation of not less than $25,000 per annum commencing the year of commercial discovery declaration and for a period of not less than ten (10) years.

8. Preference for In-State Gas Processing: The Purchasers agree to give preference to in-State processing of both the purchased State ANS Royalty Gas and any gas discovered in the Purchasers' Foothills exploration efforts. Such in-State processing must afford the Purchasers equivalent terms and conditions that they could otherwise receive for out-of-state processing.

9. In-State Usage Reservation: The State is afforded an in-State gas use preference to the extent the Purchasers' 70% call would exceed 350 MMcfd.

10. Call Option: APC and AEC granted right to call for all or a portion of State's royalty gas up to 70% of State's ANS royalty gas (Estimated at 350 MMcfd).

11. Quantity: Up to 70% of State's ANS royalty gas at APC's/AEC's election (Estimated at 350 MMcfd).

12. Employment & Economic Impact Related to the Exploration Work Commitment: Anchorage based Northern Economics has prepared a study quantifying these two benefits with respect to our Exploration Work Commitments under both an "Exploration Only Scenario" and a "Successful Development Scenario". The Exploration Only Scenario yields total in-State economic value of $40 million and creates an annual average of 180 new jobs. The Successful Development Scenario yields total in-State economic benefits of $6.4 billion and creates an annual average 560 – 3,300 new jobs, depending upon the operations mode (exploration, development, or production).

13. Offer Value Per Mcf: The Purchasers' Offer yields a value of $0.09 per Mcf and $10.06 per Mcf, in the Exploration Only and the Successful Development Scenarios, respectively. These values were computed based upon a purchase quantity of 639 Bcf during the Primary Term of five (5) years.

14. Term: Call option for primary term of 5 years ending at 5th anniversary of Pipeline being placed in full, normal service. APC and AEC have the option to extend the term for additional 5-year intervals with additional Option Payments and escalations in the Price Premium. Term cannot be extended beyond the term of the transportation contracts secured for such gas.

15. Early Termination Provision: Either Party may terminate early if (i) the Royalty Board and Legislature have not approved the definitive Agreement by August 31, 2002; (ii) no Pipeline open season has occurred by March 31, 2005; or (iii) the Pipeline is not in service or State Royalty Gas has not been delivered by July 31, 2012.

16. Point of Delivery: To be negotiated between the State and the Purchasers.

17. Firm Transportation Service Release: If APC/AEC are unsuccessful in securing firm transportation on the Pipeline in quantities equal to or greater than the volume necessary to achieve an economic gas development, APC/AEC may terminate the Agreement without further obligation.

18. Separate Agreements: Anadarko and AEC will enter into separate Agreements with the State for one-half of the option volume rights and one-half the obligations. Initial Agreements shall be equivalent, but administration and application shall be separate and independent.